

**SECRET**

25X1

1869-43  
Copy 11

20 DEC 1963

**MEMORANDUM FOR: Chief, Audit Staff**

**SUBJECT : Audit Report of OSA-DD/SAT for the Period  
1 July 1962 Through 30 September 1963.  
1869-43, dated 21 November 1963.**

25X1

1. In response to the subject Audit Report, we are submitting herewith the actions taken or to be taken on the various recommendations included in paragraph 4 of the report.

2. RECOMMENDATION a. Take necessary measures to assure timely final closing of contracts.

**ACTION TAKEN:**

We concur in the spirit of this recommendation and procedures are being established to verify and check, on a monthly basis, that all action has been taken on each completed contract which can be taken as of that date. The matter of delays caused by failure to negotiate final overhead rates, by the cognizant Audit Agency, on otherwise completed prime or subcontracts will continue occasionally to be a problem.

3. RECOMMENDATION b. Improve and formalize contract payment procedures.

**ACTION TAKEN:**

Action is being taken to formalize Contract Payment procedures as follows:

**Technical Representative Contracts (Services)**

A folder is being maintained for each technical representative whose services are contracted for on behalf of this activity. The time and attendance reports received from the field stations are filed in the folders for comparison with the time and attendance reports supporting the contractors' invoices for services rendered. Should discrepancies exist an exception is taken to the billing. Records of accrual and use of leave, sick and annual, are checked against the Tech Rep's employment agreement to assure compliance therewith.

25X1

**SECRET**

Handle via   
Control System

25X1

1859-63

Page 2

### Call Type and Materiel Contracts

Procedures to establish a record of materiel received are in process. The procedure will entail a running inventory record of the items received. Each contract file will contain properly signed receiving documents (DD Form 250) in support of billings for materiel. Facsimile signatures of person authorized to receive property will be maintained.

4. RECOMMENDATION c. Limit access to imprest fund to authorized custodian.

#### ACTION TAKEN:

25X1 The recommendation of the Audit Staff has been complied with. The principal assistant to [ ] has been given an advance for use when [ ] is not available.

25X1 5. RECOMMENDATION d. Formalize property accountability procedures for the CORONA Program.

#### ACTION TAKEN:

The CORONA Contractor responsible for the assembly of the single system will be instructed to reduce to writing a suitable procedure for the handling of Government property within the contractor's plant. The procedure shall include the receipt, issue, transfer, and expenditure of sub-systems as well as the single system in performance of the basic contract with the Agency. The resident Air Force Auditor, who is assigned to duty with OSA, shall be requested to assure overall compliance at the contractor's plant with the written procedures.

6. RECOMMENDATION e. Establish procedures for timely disposal of residual materiel under CORONA Program.

#### ACTION TAKEN:

A continuing review is made with the technical staff to determine those items that are no longer required in the CORONA Program and thus may be disposed of. Prompt action is taken to dispose of those items which are identified as having no further value in the Program. Additionally, the prime contractor will be consulted for his determinations as to the currency of the materiel at the Franconia Depot available for the CORONA Program.

25X1

-3359-63  
Page 3

7. RECOMMENDATION f. Utilize adequate hand receipt procedures for property issued.

ACTION TAKEN:

Hand receipts for property, which is essentially administrative, have been brought up to date.

25X1

8. RECOMMENDATION g. Conform procedures for recreation fund to published Agency procedures.

ACTION TAKEN:

A document outlining proposed use and accounting for income from bowling fees was prepared on 2 December 1963 and after review by cognizant officials was approved on 16 December 1963.

25X1

9. RECOMMENDATION h. Establish procedures to provide Supply Section with documentation on local purchases.

ACTION TAKEN:

[redacted] has established a formal Operating Procedure to insure proper recording of local purchase items. This procedure is documented as STANDARD OPERATING PROCEDURE Number 39-3177-1, dated 6 December 1963, Subject: Purchase of Supplies or Equipment From Base Funds. A copy of this document is on file in this Headquarters and is available for review by the Audit Staff.

25X1

10. RECOMMENDATION i. Expedite obtainment of Declaration of Trusts for certain field bank accounts.

ACTION TAKEN:

Declaration of Trusts have been obtained from the holders of all bank accounts where official funds are involved. Procedures have been established whereby all new recipients of Imprint Fund Advances will be given a Declaration of Trust Form at the time the advance is made with instructions to execute the Declaration of Trust Form and forward it to Headquarters should the funds be deposited to a bank account for safekeeping.

25X1

11. RECOMMENDATION j. Provide for disposition of Agency property [redacted] is turned over to Air Force control.

25X1

3859-63

Page 4

25X1

ACTION TAKEN:

25X1

A complete inventory of all property located at [redacted] will be made prior to transfer of the property to the new AFLC property accounting officer. Accountability for Agency property at [redacted] will be terminated as of 1 January 1964, in accordance with the provisions of Logistics Regulations 46-1, paragraph 1f(1)(d) and paragraph 1f(2), and will be assumed by AFLC. A certificate of expenditure listing the Agency property transferred will be forwarded to the Office of Logistics for appropriate recording, and a copy will be retained in OSA/MD files.

25X1

12. Although not included in paragraph 4 of the report as an item requiring a reply, mention was made in paragraphs 15, 16 and 17 of the [redacted] account is being scrutinized closely by this Headquarters. Upon learning of the increased override rates which went into effect on 1 January 1963 without prior warning, a Headquarters delegation met with [redacted] officials to review and protest these increases. This meeting and subsequent follow-up by both Headquarters [redacted] officials resulted in a reduction of these override rates to a level lower than those in effect at 1 January 1963. The senior [redacted] Finance Officer is now spending approximately 75% of his time monitoring this account. The Deputy Chief for Support and the Administrative Officer at [redacted] are also making this account a continuing matter of prime concern. In addition to the above, a procedure has been established whereby the Air Force Auditors assigned to OSA will make periodic audits of this account in the same manner as they audit our other commercial contractors. The first of these audits was made by the Senior Air Force Auditor during the period 18-22 November 1963. The purpose of this audit was to determine the propriety of [redacted] cost allocation to review the overall control exercised by [redacted] to survey the types of data being furnished to Area 51 officials in support of [redacted] charges, and to ascertain whether effective use of such data was being made by [redacted] management to control expenditures. The report of the Auditor on the results of this visit indicates that he was favorably impressed with the controls and procedures currently being followed and that in his opinion, they are adequate for the protection of Agency interests. A copy of his report is attached and is made a part of this reply.

25X1

25X1

25X1

25X1

25X1


25X1

25X1

25X1

25X1

25X1

-3859-63  
Page 5

13. The recommendations and suggestions made by the auditors were most helpful to us in carrying out the many complex programs associated with OSA.

25X1



JAMES A. CUNNINGHAM, JR.  
Deputy Assistant Director  
(Special Activities)

25X1

OSA/B&F: :rgu (19 Dec. 63)

**Distribution:**

- Copy #1 & #2 - Addressee, w/att
- #3 - IG, w/att
- #4 - Director of Finance, w/att
- #5 & #6 - DD/S&T, w/att
- #7 - AD/OSA, w/att
- #8 - B&F/OSA, w/att
- #9 - CD/OSA, w/att
- #10 - MD/OSA, w/att
- #11 - B&F/OSA (Reading), w/att
- #12 - RB/OSA, w/att
- #13 - DAD/OSA, w/att